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OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report of the Administrator

I. PURPOSE AND BACKGROUND

1. The present report responds to Governing Council decision 92/2 and to Executive Board decision 93/32, inviting the Administrator to outline his plans for the future of the United Nations Capital Development Fund (UNCDF).

2. It is the Administrator's intention to strengthen the role of UNCDF as the community development arm of the United Nations Development Programme (UNDP) aimed towards poverty alleviation, first and foremost in the least developed countries (LDCs), particularly through local-level participation, including the empowerment of women. The experience gained by UNCDF is expected to aid in UNDP upstream policy-making as well as to translate policy into concrete activities. With these goals in mind, UNCDF efforts are now geared towards strengthening the quality of and refining its products and maximizing the impact of its programmes; strengthening the relationship between UNCDF and UNDP; seeking non-traditional financing; reorganizing to reach optimal staffing and structure to carry out new policy initiatives and reduce overhead; and maintaining sound financial management.

II. PROGRAMME ACTIVITIES

3. Community development activities 1993-1994. UNCDF new project approvals, $36.9 million in 1993 and $33.7 million in 1994, have been guided for the most part by a new programming approach that builds upon and supports trends in the LDCs towards democratization, decentralized decision-making and the devolution

of resource management to local government authorities and community institutions. Field experience has shown that when ownership and control are retained locally, there is a greater likelihood that investments will correspond to local needs and that infrastructure will be maintained beyond the project cycle. UNCDF has therefore increased its collaboration with local authorities, concentrating on capacity-building at the local level. With a geographic focus appropriate to this partnership and in order to maximize linkages among components and multiply gains from any one intervention, the new approach blends traditional UNCDF strengths in the provision of economic and social infrastructure and in credit for both agricultural and small-scale entrepreneurial activities with local development funds. These funds provide small grants for works schemes that fulfil immediate social and economic needs at the community level, encouraging participation through community/user organizations and/or local government bodies in the planning, implementation and management of small infrastructure projects. A new programme typically comprises one or more infrastructure projects serving the public at large, credit to help improve individual income and foster employment and a local development fund. In some cases, either because of resource constraints or local absorptive capacity, a new programme consists of one project combining these elements. In Sao Tome and Principe, for example, $2.3 million was approved for rural community development in Agua Ize, melding infrastructure development with credit, and setting the stage, through the establishment of farmers' associations, for the management of local development funds.

4. During the biennium, infrastructure, including agricultural schemes and irrigation, transport, water supply and sanitation, larger educational and health facilities, accounted for about 73 per cent of funds approved. Some of the infrastructure projects complete larger-scale programmes of earlier design. These include feeder roads in Nepal ($5.4 million) and Bhutan ($3.3 million), the construction of primary schools and health centres in Bhutan ($2.9 million) and a $1.7 million wholesale fruit and vegetable market in Yemen. Local development funds, in Madagascar, Mali, Mauritania, Mozambique, Niger, Uganda and Zambia, amount to approximately $10 million, or 14 per cent of funds approved. In the Occupied Palestinian Territories, a $1.4 million local development fund, approved in 1994 with UNDP technical cooperation already in place, has financed the construction of a seven kilometre bituminous road, a six-room school for girls and land reclamation, among other micro-projects. While credit components account for only about 7 per cent over the biennium, several of these projects employ innovative means for extending credit (see paragraph 6).

5. In ecologically fragile areas, the new approach adds elements drawn from the thematic review of participatory eco-development. The local development fund becomes an important tool to gain support for "eco-swaps", in which the communities enter into contractual agreements to work towards, for example, sand fixation, with no immediate benefits, in exchange for latrines, village pharmacies or other improvements with immediate impact. Eco-development programmes are under way in Guinea, Madagascar, Mali, Mauritania, Niger and Laos. An important offshoot of the eco-development approach is the development of intermediate towns as centres of commerce, services and non-farm employment opportunities, designed to halt migration to already teeming cities. In Burundi, a $3.46 million project was approved in 1993 to transform Karuzi and

Cankuzo into semi-urban centres through the provision of roads, electrification, markets, workshops and housing. If the security situation permits the project to be carried out, these towns will provide support services to the surrounding rural populations and help to fuel their economies. Partners include Belgium, France and Germany and the International Labour Organization.

6. Credit and loan activities. UNCDF continues to experiment with new mechanisms for extending credit, making use during the 1993-1994 biennium of the UNCDF loan facility to underwrite potential defaults to commercial banks, in return for the extension of credit to non-traditional borrowers. In West Africa, UNCDF has served a catalytic and leveraging role, providing a $1 million loan to five commercial banks that enables them to participate in the $25 million West African Guarantee Fund for Private Investment. These banks will lend at least 20 per cent of their loans under the Guarantee Fund to small entrepreneurs. Another $2.9 million regional project uses the loan facility to consolidate the slow-disbursing credit components of a number of projects under one agent with a proven delivery record. In Malawi, in a $0.5 million project, UNCDF will issue a letter of credit that will permit the National Bank of Malawi to guarantee working capital loans for small businesses.

7. Evaluation. In 1993-1994, UNCDF undertook 15 evaluations, including one of a thematic nature. To strengthen its capacity to carry out rigorous socio-economic impact assessment in selected sectors, UNCDF produced draft standard terms of reference for baseline studies and the definition of key performance indicators. These were based on a review of state-of-the-art theory and practice, as well as an analysis of terms of reference for UNCDF evaluation and of recent baseline studies. Since local development funds represent a new field for UNCDF, they are being scrutinized from the outset for design lessons and rapid feedback into operations. Six case studies are under way to document and analyse field realities from cross-regional, policy and design perspectives.

8. Joint programming. Efforts to ensure the complementarity and consistency of UNCDF programming with UNDP country programmes have been stepped up in 1994. Meetings have begun at headquarters with the Regional Bureau for Africa to demonstrate the scope of UNCDF commitments in Africa and to lay the foundation for joint work planning and the inclusion of UNCDF assistance in country programmes. Two recent approvals in the Eastern Province of Zambia, a $4.5 million feeder roads rehabilitation and maintenance project and a $2.6 million project providing local development funds to three districts, are part and parcel of UNDP larger programmes for agricultural sector investment and capacity-building for economic management. It should be noted, however, that although UNDP is financing technical cooperation to support UNCDF capital investment in 17 new projects, amounting to $14.3 million, the value of UNDP commitments fell from $8.7 million in 1993 to $5.6 million in 1994. Thus, even in a climate of exemplary cooperation such as in the new Zambia programmes, UNCDF must continue to seek other partners. In Zambia, under parallel financing arrangements, the Dutch Association of Municipalities (VNG) is providing expertise to local authorities in charge of the community development funds. The value of the VNG input is $150,000 per annum for four years, contingent upon the stability of VNG's own funding situation. Talks are also under way for some level of VNG assistance for a jointly formulated project in Viet Nam. In Yemen,

the Netherlands is providing approximately $0.5 million in technical cooperation for the wholesale market.

9. Non-traditional financing. The above-mentioned collaboration with VNG is part of an overall strategy to develop partnerships between UNCDF and organizations of northern municipal authorities to work together towards empowering their southern counterparts. In this context, UNCDF has been working closely with the International Union of Local Authorities (IULA) and a French NGO Cités Unies Développement, to bring together through these networks the resources required to assist emerging local governments in the LDCs. Cités Unies has expressed interest in providing assistance under five UNCDF projects in Madagascar, Mali, Mauritania, Nicaragua and Niger. In addition, UNCDF sponsored a panel during the recent Mayor's Colloquium working on the agenda for the upcoming Social Summit, which featured local authorities from selected UNCDF project zones. In keeping with the principal thrust of UNCDF, this panel lent a rural note to an otherwise urban orientation, as the panel Chairman mentioned in his concluding remarks.

10. In the area of resource mobilization, UNCDF found alternative financing in 1994 for an approved eco-development project in Mali from the Belgian Survival Fund (BSF). The project had been identified, fully formulated, appraised and approved according to UNCDF standards. It is hoped that such alternative financing can be found for other projects, with the amounts taken up by other donors returned to general resources for reprogramming. The replicability of UNCDF projects and delivery mechanisms has long been a subject of interest. In the 1993-1994 biennium, the Government of the Comoros and the World Bank have taken up the financing mechanism, from user fees, of a UNCDF-financed health centre project in Mitsoudjie for replication throughout the country. The World Bank has recognized the Fund's niche as provider of small-scale rural infrastructure as well as its ability to facilitate the decentralization process through local development funds. As a result, a series of meetings was held to identify areas for direct collaboration. In December, a joint formulation mission was fielded to Uganda. Co-financing a local development fund as pilot for the country-wide decentralization of the development budget was explored. Although still in the preliminary stages, this initiative is most promising.

11. Reorganization. In view of the Fund's decreased resources and consequent reduction in programming activity, management has taken major steps towards streamlining. With respect to UNCDF staffing and structure, management froze a number of posts as incumbents left the Fund, and in 1994 work on a reorganization began with a view to optimizing work practices and reducing overhead. The results of the restructuring, aiming towards a 10 to 15 per cent reduction in relative terms, are expected to be submitted to the Executive Board for approval during the 1996-1997 budget exercise.

12. Financial management. From the record level of $41.8 million in 1991, pledges have decreased to $31.3 million in 1994, a 27 per cent reduction. Although the Fund is hopeful for an upswing in resources, allowing for higher and predictable programming levels, and mobilizing new resources is a priority, management has taken steps to ensure that in the medium term expenditure will not exceed income and reserves. Given the decline in available resources, and delivery exceeding income at $53.6 million in 1993 and an estimated

$50.7 million in 1994, outstanding programme commitments to be financed from general resources have been reduced by nearly 30 per cent from their peak in 1991 of $296.6 million to an estimated $218 million. The difference between income and expenditure will be financed from resources accumulated through 1991. By the end of the present decade, however, accumulated resource balances will be almost exhausted from around $100 million in 1990-1991.

III. EXECUTIVE BOARD ACTION

The Executive Board may wish to:

1. Take note of the present report;

2. Appeal to all interested donor countries, organizations and other parties to make voluntary contributions to the Fund;

3. Encourage the Administrator to continue to refine the community development focus of the Fund.

UNITED NATIONS CAPITAL DEVELOPMENT FUND: GENERAL RESOURCES AVAILABILITY AND UTILIZATION, 1990-1998 a/
(Millions of dollars)

	Final				Projection: 0% growth				
	1990	1991	1992	1993	1994	1995	1996	1997	1998
I. STATEMENT OF MOVEMENT IN GENERAL RESOURCES									
Available resources from previous year	97.8	100.9	101.2	90.5	77.1	64.1	53.5	44.8	37.5
A. Resources made available during the year									
Voluntary contributions received b/	39.5	44.5	40.1	31.8	33.3	31.8	31.8	31.8	31.8
Loan repayments	0.0	0.0	0.7	0.8	1.2	1.8	1.8	1.8	2.0
Other income	14.1	11.4	8.0	5.8	5.3	5.7	5.0	4.5	4.0
Reduction in operational reserve	0.0	0.0	3.8	7.2	4.6	1.8	1.8	1.8	1.8
Decrease in non-convertible currencies	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total resources made available during year	53.6	56.4	52.6	45.6	44.4	41.0	40.4	39.9	39.6
B. Resources used during the year									
Project expenditure	(33.9)	(44.6)	(53.9)	(53.6)	(50.7)	(45.9)	(44.0)	(42.1)	(40.2)
Administrative expenditure	(3.9)	(4.2)	(4.4)	(4.4)	(4.7)	(4.7)	(4.1)	(4.1)	(4.1)
Technical support costs	0.0	0.0	0.0	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Loans disbursed	(6.1)	0.0	(5.0)	0.0	(1.0)	0.0	0.0	0.0	0.0
Increase in operational reserve	(6.5)	(7.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in non-convertible currencies	(0.1)								
Total resources used during year	(50.5)	(56.1)	(63.3)	(59.0)	(57.4)	(51.6)	(49.1)	(47.2)	(45.3)
C. Available general resources at year end	100.9	101.2	90.5	77.1	64.1	53.5	44.8	37.5	31.7
II. STATEMENT OF TOTAL GENERAL RESOURCES AT YEAR END									
A. Available resources	100.9	101.2	90.5	77.1	64.1	53.5	44.8	37.5	31.7
B. Restricted resources									
Operational reserve c/	52.0	59.3	55.5	48.3	43.7	41.9	40.1	38.3	36.5
Loans receivable	8.0	8.0	12.3	11.5	11.3	9.5	7.7	5.9	3.9

.../...

	Final				Projection: 0% growth				
	1990	1991	1992	1993	1994	1995	1996	1997	1998
Non-convertible currencies	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total restricted resources	61.0	67.8	68.3	60.3	55.5	51.9	48.3	44.7	40.9
C. Total general resources at year end	161.9	169.0	158.8	137.4	119.6	105.4	93.1	82.2	72.6
III. STATEMENT OF TOTAL OUTSTANDING COMMITMENTS									
A. Grants									
Project commitments from previous year	220.2	259.7	291.6	277.3	241.5	218.5	209.6	200.6	191.6
Approvals during year (grants only)	78.8	81.5	55.0	40.6	37.7	45.0	43.0	41.1	39.1
Trust fund/cost-sharing transfers			(3.1)						
	299.0	341.2	343.5	317.9	279.2	263.5	252.6	241.7	230.7
Project expenditure during year	(33.9)	(44.6)	(53.9)	(53.6)	(50.7)	(45.9)	(44.0)	(42.1)	(40.2)
Annual project savings	(5.4)	(5.0)	(12.3)	(22.8)	(10.0)	(8.0)	(8.0)	(8.0)	(8.0)
	(39.3)	(49.6)	(66.2)	(76.4)	(60.7)	(53.9)	(52.0)	(50.1)	(48.2)
Total outstanding grant commitments d/	259.7	291.6	277.3	241.5	218.5	209.6	200.6	191.6	182.4
B. Loans									
Loan commitments from previous year	7.2	0.2	5.0	0.0	0.0	0.0	0.0	0.0	0.0
New loan approvals	0.0	4.8	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Loan disbursements during year	(6.1)	0.0	(5.0)	0.0	(1.0)	0.0	0.0	0.0	0.0
Transfers to grants	(0.9)								
Total outstanding loan commitments	0.2	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Total outstanding commitments	259.9	296.6	277.3	241.5	218.5	209.6	200.6	191.6	182.4

a/ This chart shows the annual level of project approvals and expenditures made possible from UNCDF general resources. It does not show additional project approvals and expenditures made possible from cost-sharing and/or trust fund arrangements.

b/ Figures shown include total collections, including payments for prior year pledges.

c/ This amount represents 20 per cent of outstanding commitments.

d/ This amount is in excess of available resources due to the application of the partial funding formula. Please note that certain totals may appear incorrect, i.e., (+)(-)0.1, as a result of rounding.